

MACROECONOMIC THEORY II

First Half (January 16 – March 8)

Lectures: Monday and Thursday 11:30am-12:50pm

Recitations: Tuesday 11:30am-12:50pm

Classroom: Murray 208 (Lecture) and Murray 115 (Recitation)

Instructor: Diego Anzoategui

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COURSE SUMMARY

This first half has two different sections. The first one aims to provide an introduction to infinite horizon decision problems, develop “basic dynamic programming arguments” and practice thinking recursively. I will provide useful examples with a particular emphasis on search models. The second half describes the classical New Keynesian Model.

TEXTBOOKS

The first half of the course will be based on,

Jerome Adda and Russel Cooper. *Dynamic Economics, Quantitative Methods and Applications*, MIT Press, 2003

Nancy Stokey and Robert Lucas. *Recursive Methods in Economic Dynamics*. Harvard University Press, 1989

Lars Ljungqvist and Thomas J. Sargent. *Recursive Macroeconomic Theory*. MIT Press.

The second half will be mostly based on,

Jordi Gali. *Monetary Policy, Inflation, and the Business Cycle, an Introduction to the New Keynesian Framework*. Princeton University Press.

EVALUATION

There will be approximately one problem set every week. I strongly encourage working in groups. However, you should submit your own answers. You need to hand in all problem sets to be able to pass. There will be a Midterm exam after this half (right before spring break).

MIDTERM DATE: March 8 in class

COURSE OUTLINE

- 1) **Dynamic Programming.** Principle of Optimality, Contraction Mapping Theorem, Blackwell's sufficient conditions, Theorem of the Maximum. Applications: Stochastic Growth, Consumption and Investment Decisions.

Adda and Cooper, ch. 2, 5, 6, 7 and 8

Stokey and Lucas, ch. 3

Ljungqvist and Sargent, ch. 3

- 2) **Search Theory.** McCall's search model. Diamond, Mortensen and Pissarides matching model. Kiyotaki and Wright search model of money.

Ljungqvist and Sargent, ch. 6 and 26.

- 3) **New Keynesian Framework.** Classical Monetary Model, Basic New Keynesian Framework. Financial Frictions in Macro Models (time permitting).

Gali, ch. 2 and 3.